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ANNUAL REPORT
OF
SAFEWAY STORES
INCORPORATED

YEAR ENDED
DECEMBER 31st
1·9·4·0

BOARDS
9658.7414
Sa174

SAFEWAY STORES
INCORPORATED
Geographical Distribution of Stores
130°
120°
110°
100°
90°
50°
45°
40°
35°
30°
25°
20°
Alberta
31 stores
Saskatchewan
27 stores
British Columbia
61 stores
Total Canada — 168 stores
Manitoba
45 stores
Ontario
4 stores
Washington
196 stores
Montana
47 stores
Oregon
122 stores
Idaho
33 stores
Wyoming
22 stores
South Dakota
2 stores
Nevada
11 stores
Nebraska
88 stores
Iowa
8 stores
Utah
40 stores
Colorado
117 stores
Kansas
74 stores
Missouri
62 stores
California
893 stores
Arizona
44 stores
New Mexico
29 stores
Oklahoma
106 stores
Arkansas
35 stores
Texas
157 stores
Total U. S. A. and Canada
as of December 31, 1940
2528 stores
Total U. S. A.
2360 stores
Maryland
29 stores
Washington, D. C.
164 stores
Virginia
81 stores

Annual Report of President to Stockholders

The report of the operations of your company and its subsidiaries for the year 1940, including Consolidated Balance Sheet, Profit and Loss Account, and Surplus Accounts, is submitted herewith.

Sales and Profits

Net sales in 1940 amounted to $399,322,122.15, an increase of $13,440,039.15, or 3.48%, as compared with 1939.

The consolidated net income for the year 1940 after income taxes, interest charges, and adequate depreciation, but before preferred dividends, amounted to $4,786,651.92, as compared with $6,268,360.45 in 1939. Regular preferred dividends amounting to $951,443.98 were paid during the year. Dividend requirements on the average amount of preferred stock outstanding during the year were earned 5.03 times. After deducting regular preferred dividends in the amount of $951,443.98, the earnings of the company applicable to common stock were $3,835,207.94, or at the rate of $4.76 per share on 805,284 shares, the average number of common shares outstanding during the year.

Sales, expenses, and operating results of the subsidiaries operating in Canada have been included in the Consolidated Profit and Loss Account on the basis of the controlled exchange rate (90.09) prevailing for Canadian dollars in terms of United States dollars on December 31, 1940. In preparing the Annual Report for 1939 the open exchange rate was used to reduce the net current assets of the Canadian subsidiaries for the purpose of the Consolidated Balance Sheet. As at January 1, 1940, a credit of $90,456.51 was made to Earned Surplus Account to change the basis of reduction of these net current assets from the open exchange rate to the controlled rate. The controlled rate of exchange was used at December 31, 1940, for the same purpose and a footnote to the Consolidated Balance Sheet in this report gives a summary of the assets and liabilities of the Canadian subsidiaries.

Operations

During the year 211 stores and 230 meat markets have been added. A total of 542 stores were closed, in which were located 421 meat markets, which were of necessity also closed. In accordance with the company's policy, the expense of closing all stores vacated was charged against current earnings, and all fixtures transferred from closed stores were carried forward at the current value of usable or salable fixtures, or the depreciated book value, whichever was less. Leasehold improvements on these closed stores were charged off against current earnings. Such improvements on continuing stores are being charged off on an amortized basis.

The subsidiaries of your company have continued the program of purchasing carefully selected properties, erecting store buildings thereon, and subsequently selling them to investors, from whom the subsidiaries took leases. This method fulfills the dual purpose of securing proper locations and of limiting the permanent investment in real estate. Automobile parking facilities have been provided for customers immediately adjacent to practically all stores added during the year.

The annual sales and the average number of stores and meat markets in operation during the past five years are shown below:

Years	Sales	Grocery Stores	Meat Markets Located in Grocery Stores
1936	$346,178,061	3,370	2,490
1937	381,868,220	3,327	2,670
1938	368,254,991	3,227	2,710
1939	385,882,083	2,967	2,643
1940	399,322,122	2,671	2,508

As at December 31, 1940, 2,528 stores, in which were located 2,426 meat markets, were in operation.

In addition to the retail units mentioned above, the subsidiaries of the company also operate 60 principal warehouses, 19 bakeries, 7 creameries, 7 coffee roasting plants, 3 meat distributing plants, 4 dressings plants, an evaporated milk plant, a candy factory, a jam and jelly plant, a fruit and vegetable cannery, as well as a number of smaller warehouses.

The Federal Food Stamp Plan is now in use in many cities and towns where operations are conducted. Your organization has cooperated with this plan to the fullest possible extent in the interests of agriculture and the eligible groups.

Financial Position

The total net worth of the company and its subsidiaries as at December 31, 1940, according to the attached Consolidated Balance Sheet, was $53,286,166.54. It will be recalled that in August, 1939, the company borrowed $14,000,000.00 from three commercial banks on notes bearing interest at the rate of 2½% per annum. The first notes in the aggregate amount of $1,200,000.00 which fell due in August, 1940, were duly paid, and a payment of $122,000.00 was made on the notes falling due in 1946. The remaining notes fall due serially from 1941 to 1946 inclusive. The notes falling due in 1941 aggregate $1,200,000.00, and those falling due in 1946 aggregate $5,678,000.00. The proceeds of these borrowings were used to retire the 4% Debentures then outstanding. The premium paid on the retirement of the Debentures and the unamortized discount and expense on the Debentures are being written off over the life of the term bank loans, the unamortized balance at December 31, 1940, being $782,810.24.

The total current assets at the end of 1940 amounted to $47,272,753.96, while total liabilities, including the term bank loans, amounted to $27,612,346.38, or an excess of current assets over all liabilities of $19,660,407.58. Current bank loans outstanding at December 31, 1940, amounted to $2,000,000.00. The ratio of current assets to current liabilities (as stated on the Consolidated Balance Sheet) was 2.93 to 1. The net current assets of the Canadian subsidiaries are included in the Consolidated Balance Sheet, item by item, at the controlled exchange rate prevailing at December 31, 1940, for Canadian dollars in relation to United States dollars.

In April, 1940, the company arranged with underwriters for the public offering and sale of 147,688 shares of the company's preferred five percent cumulative stock. The price received by the company for this stock was $105 per share, plus accrued dividends from April 1, 1940, while the price to the public was $108 per share, plus accrued dividends from April 1, 1940. From the proceeds of this issue $13,888,430.61 was used to redeem the company's 7% and 6% cumulative preferred stocks which were outstanding on July 1, 1940, thus leaving only one class of preferred stock outstanding, namely the 5% preferred cumulative stock. Dividends paid on the 7% and 6% cumulative preferred stocks from the date of sale of the 5% preferred stock referred to above, to the date of retirement of the 7% and 6% preferred stock, namely, July 1, 1940, have been charged to Paid-In Surplus in the amount of $170,990.61.

We indicate below the capital and surplus of the company, the book values per share of the preferred and common stocks, and the dividends and earnings per share of the common stock for the past five years. The book value of the common stock is computed without deducting the premium of $10.00 per share to which the preferred stock is entitled upon voluntary or involuntary liquidation. The number of shares outstanding at the end of each year is used in determining book values, and the average number of shares outstanding during the year in computing earnings:

	Capital and Surplus	Net Assets Per Share of Preferred Stock	Book Value Per Share of Common Stock	Dividends Paid Per Share on Common Stock	Net Earnings Per Share on Common Stock
1936	$46,759,491	301	39.18	*3.50	4.03
1937	47,334,239	298	39.49	*2.50	2.62
1938	48,407,475	314	41.53	2.00	4.02
1939	51,075,334	308	42.79	*4.50	6.61
1940	53,286,166	287	43.13	3.50	4.76

*Paid in part in five percent preferred stock.

In accordance with the program of simplifying the corporate structure of the subsidiaries, two minor subsidiaries were dissolved at the close of the year and their assets taken over by other subsidiaries.

Special Chain Store Taxes

Certain subsidiaries of the company have been and are now subject to special chain store taxes in the States of Colorado, Idaho, Iowa, Maryland, Montana, South Dakota, and Texas. The aggregate cost of all chain store taxes during 1940 was approximately $176,000.00.

No new chain store taxes were enacted in 1940 by any state in which the organization operates. However, in several states bills providing for chain store taxes have been introduced at current sessions of the various legislatures being held at the time of the writing of this report.

In last year's Annual Report reference was made to a bill which had been introduced for a federal excise tax on chain stores. This bill, H. R. 1, introduced in Congress in 1939 by Congressman Wright Patman of Texas, proposed a special, discriminatory federal tax upon chain stores. It was supported almost exclusively by competitive business interests and was, in principle, the same type of punitive tax which has been backed by similar interests in various states.

Hearings were held on this bill from March 27 to May 16, 1940. Witnesses from every section and representing every part of the American public presented more than 2,000 pages of testimony. Farmers, manufacturers, organized labor, and consumers, almost unanimously opposed the legislation, and, for the first time, presented a consolidated picture of American public opinion about chain stores and their relation to the social and economic welfare of the country.

On June 18, 1940, Chairman McCormack announced that the Ways and Means Subcommittee had rejected H. R. 1.

A new bill, also titled H. R. 1, was introduced before the House of Representatives by Congressman Wright Patman of Texas on January 3, 1941. This bill is now pending. The basis of taxation therein proposed would impose on your company a discriminatory tax of approximately $8,500,000.00 in the third year after the date of enactment, and in addition would add very substantial taxes in the event new stores were opened.

Company Policies

On January 1, 1941, a booklet entitled, "Safeway Policies" was distributed to all employees. Feeling that you would be interested in this statement, a copy of the booklet is being sent to you under separate cover today. You will no doubt be particularly interested in the statement of policy with respect to farmer and producer relations, in which is outlined in full the company's practical application of its keen interest in the merchandising problems of agriculture. We believe the sections regarding participation in community affairs and relationships with newspapers and customers will also be of interest to you.

As in the past, substantial sums have been spent in public relations activities in the various states in which the organization operates.

Personnel

As previously indicated in this report, the number of units in operation has again been reduced very substantially, but the total sales volume has increased. The reduction in the number of units has not caused any decline in the number of employees, which remains at approximately 19,500. No change has been made in the policy of paying store and sales employees in managerial positions a share of the earnings, nor in the company's employment policies with respect to union affiliations.

Over 97% of the employees are members of the Safeway Employees' Association, which was organized eight years ago. One of the major benefits incident to membership in this Association is the group insurance plan, the cost of which is borne by the participating members and the subsidiaries of the company. The total group insurance in force now aggregates approximately $49,750,000.00.

I am glad to take this opportunity to express in this public way my personal appreciation of the loyalty of the employees.

L. A. WARREN, President.

SAFEWAY STORES, INCORPORATED (a Maryland Corporation) AND SUBSIDIARIES

Consolidated Balance Sheet as at December 31, 1940

ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 8,735,220.61
Accounts Receivable—Trade, less Reserve $118,195.35		2,048,676.14
Government Accounts Receivable and State, County and Municipal Warrants		885,756.36
Accounts Receivable for Sale of Properties occupied by Company		2,247,653.71
Sundry Accounts Receivable		231,248.03
Merchandise Inventories—at Lower of Cost or Market		33,124,199.11
Total Current Assets		47,272,753.96
Prepaid Expenses:		
Rents, Taxes and Licenses	$ 251,039.36	
Insurance	96,077.83	
Miscellaneous Supplies, etc.	180,696.68	527,813.87
Investments and Advances:		
Security Investments—at Cost	366,713.85	
Other Investments and Advances	200,056.37	566,770.22
Fixed Assets — at Cost:		
Land	7,670,805.44	
Buildings	14,327,732.31	
Leasehold Improvements	1,043,768.33	
Store, Warehouse and Plant Fixtures and Equipment	25,280,857.24	
Automotive Equipment	3,130,525.10	
	51,453,688.42	
Less Reserve for Depreciation	19,705,323.79	31,748,364.63
Debt Discount, Redemption Premium and Expense—Balance unamortized (Note 2)		782,810.24
Total		$80,898,512.92

LIABILITIES

Current Liabilities:		
Notes Payable—Banks		$ 2,000,000.00
Notes Payable—Banks. Series due August 28, 1941		1,200,000.00
Accounts Payable		8,230,967.60
State Sales Taxes		370,635.05
Accrued Expenses		2,239,102.18
Dividend Payable		230,696.25
Reserve for Federal and Canadian Income Tax		1,862,945.30
Total Current Liabilities		16,134,346.38
Notes Payable—Banks, due 1942 to 1946		11,478,000.00
Capital and Surplus:		
5% Preferred Cumulative Stock, Par Value $100.00 per share (Note 3): Authorized—300,000 shares: Issued—187,200 shares	$18,720,000.00	
Common Stock without Par Value: Authorized—1,500,000 shares: Issued—806,624 shares (Note 4)	9,795,648.13	
Paid-in Surplus	10,938,192.11	
Earned Surplus	14,062,693.01	
	53,516,533.25	
Less 1,650 shares 5% Preferred and 1,341 shares Common Stock in Treasury—at Cost	230,366.71	53,286,166.54
Contingent Liabilities—(Note 5)		
Total		$ 80,898,512.92

Note 1—The Current and Working Assets and Current Liabilities of the Subsidiaries in Canada (in which country exchange restrictions are in effect) are included in the foregoing Balance Sheet at 90.09 cents U. S. to the Canadian dollar (the official selling rate of exchange); Fixed Assets are included at rates of exchange prevailing when such assets were acquired or constructed. On the foregoing basis, the net equity of the Parent Company in these Subsidiaries at December 31, 1940, amounted to $10,321,326.44, consisting of Current and Working Assets $5,484,554.70, and Fixed Assets, $4,836,771.74. The undistributed profits of the Canadian Subsidiaries since acquisition included in the Earned Surplus amounted to $1,198,732.41.

Note 2—Debt Discount, Redemption Premium and Expense of a Debenture issue refunded from the proceeds of a note issue now outstanding, together with expense of the note issue, are being amortized over the life of the refunding notes, which is one year less than the life of the refunded issue.

Note 3—The Cumulative Preferred Stock is redeemable on call and on voluntary or involuntary liquidation at a premium of $10.00 per share over par value, an aggregate premium of $1,855,500.00 on Preferred Stock outstanding, less in Treasury.

Note 4—After deducting 13,360 shares held in Treasury of which 10,000 shares are reserved to cover non-assignable options to the President of the Company exercisable until January 15, 1947 at $40.00 per share.

Note 5—Subsidiaries of the Company are contingently liable for $318,252.50 in respect of guarantees of mortgages on store buildings erected and sold. Federal and Canadian Income Tax Returns for the years 1937 to 1939 are subject to final review. Lawsuits incidental to the Companies' operations are reasonably covered by insurance. Contracts in process for construction of plants and retail store buildings at December 31, 1940, not included in the foregoing statement, amount to $3,167,717.89.

SAFEWAY STORES, INCORPORATED (a Maryland Corporation) AND SUBSIDIARIES

Consolidated Profit and Loss Account for the Year Ended December 31, 1940

Sales (Net)		$399,322,122.15
Cost of Sales		321,118,062.59
Gross Profit		78,204,059.56
Operating and Administration Expenses	$67,517,274.08	
Provision for Depreciation	3,601,599.55	71,118,873.63
Net Operating Profit		7,085,185.93
Other Income		29,476.94
		7,114,662.87
Income Deductions:		
Debt Interest, Discount and Expense	577,198.18	
Other Income Deductions	62,840.53	640,038.71
		6,474,624.16
Provision for Federal and Canadian Income Tax		1,687,972.24
Net Income (Note)		$ 4,786,651.92

Note—The operations of the Canadian Subsidiaries, which resulted in a loss of $117,504.95, Canadian, are included in the foregoing statement at 90.09 cents U. S. to the Canadian dollar, the official selling rate of exchange throughout the year with the exception of depreciation, which is based on the values of the fixed assets as included in the Consolidated Balance Sheet.

Earned Surplus Account for the Year Ended December 31, 1940

Balance as at December 31, 1939		$ 12,955,407.94
Add adjustment of Provision for decline in conversion value of Net Current and Working Assets of Canadian Subsidiaries at December 31, 1939, from the current rate of exchange to the official selling rate at that date		90,456.51
Adjusted Surplus as at December 31, 1939		13,045,864.45
Add Net Income for year ended December 31, 1940		4,786,651.92
		17,832,516.37
Deduct Cash Dividends:		
Preferred Stocks	$ 951,443.98	
Common Stock	2,818,379.38	3,769,823.36
Balance as at December 31, 1940		$ 14,062,693.01

Paid-In Surplus Account for the Year Ended December 31, 1940

Balance as at December 31, 1939		$ 11,763,791.18
Add Premium on issue of 5% Preferred Stock		747,690.00
		12,511,481.18
Deduct:		
Premium on 7% and 6% Preferred Stock retired and called for redemption, including dividends from April 16, 1940 (date of issue of 5% Preferred Stock) to date of retirement	$ 1,429,589.60	
Premium on 5% Preferred Stock retired	8,419.34	
Expenses in connection with the issue of 5% Preferred Stock	135,280.13	1,573,289.07
Balance as at December 31, 1940		$ 10,938,192.11

To the Board of Directors,
Safeway Stores, Incorporated:

We have examined the Consolidated Balance Sheet of Safeway Stores, Incorporated (a Maryland Corporation) and Subsidiary Companies as at December 31, 1940 and the statements of Consolidated Profit and Loss and Surplus for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion the accompanying Consolidated Balance Sheet and related statements of Consolidated Profit and Loss and Surplus present fairly the position of Safeway Stores, Incorporated and Subsidiary Companies at December 31, 1940 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California,
March 1, 1941.

Safeway Stores, Incorporated

(A Maryland Corporation)

Executive Officers

M. B. SKAGGS	Chairman of the Board
L. A. WARREN	President and Treasurer
LAWRENCE GILES	Vice-President and Controller
A. D. KIRKLAND	Vice-President
MILTON L. SELBY	Secretary

Directors

M. B. SKAGGS — LAWRENCE GILES

L. A. WARREN — MILTON L. SELBY

DRUMMOND WILDE

Executive Offices

20 East 5th Street . . . . . Reno, Nevada

Transfer Agent

The Chase National Bank of the City of New York . New York, N. Y.

Registrar

City Bank Farmers Trust Company . . . . New York, N. Y.

Auditors

Peat, Marwick, Mitchell & Co.

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